MINUTES
COMMONWEALTH OF PENNSYLVANIA
COAL AND CLAY MINE SUBSIDENCE INSURANCE BOARD MEETING

December 10, 2008

A meeting of the Mine Subsidence Insurance (MSI) Board (Board) was called to order at 10:00 a.m. on December 10, 2008, in the 10th Floor Conference Room of the Rachel Carson State Office Building, 400 Market Street, Harrisburg, Pennsylvania.

Board Members present at the meeting: Joseph Pizarchik, Esq., Director, Bureau of Mining and Reclamation, Designated Chair for John Hanger, the Acting Secretary of the Department of Environmental Protection (DEP); Chuck Romberger, Director, Property and Casualty Bureau, Designated Representative for Board Member Joel Ario, Commissioner of Insurance; and Deborah Eskin, Esq., Deputy Chief Counsel, Designated Representative for Board Member Robin Wiessmann, Acting State Treasurer.

Also in attendance was Lee Siegel, Chief Economist, State Treasury, and the following DEP employees: Daniel Lapato, Policy Specialist; Marc Roda, Esq. Assistant Counsel; Paul Pocavich, Chief, Division of Environmental Analysis and Support; Edward Motycki, Chief, Mine Subsidence Section; Amy Berrios, MSI Management Technician; Lawrence Ruane, MSI Program Administrator; and Nicholle Harman, MSI Board Recording Secretary.

Issues discussed and actions taken at the meeting:

1. Approval of the September 4, 2008 Meeting Minutes

   The Board reviewed and unanimously approved the minutes of September 4, 2008 Board Meeting.

2. Review of Operational and Financial Performance

   The Board reviewed reports from the program and the Comptroller's Office that demonstrated the operational and financial performance of the MSI Fund (Fund) and program. At the end of Fiscal Year (FY) 2007-08, subscriptions had grown to a record 57,558 and the underwritten value of coverage had also grown to a record of almost $7.7 billion. The Comptroller's reports demonstrated that the Fund continues to be very solvent with an Unreserved Fund Balance of over $57.5 million. However, staff noted that the vast majority of those funds actually serve as reserves that take the place of reinsurance, which prudently would be required to cover potential losses resulting from wide scale mine subsidence triggered by a disaster, such as a severe earthquake or massive flood. The average cost of coverage, which was 89 cents per $1,000 of coverage at the end of FY 2006-07, fell to 88 cents at the close of FY 2007-08. It will be dropping to an average of about 65 cents per $1,000 of coverage after the rate reductions take effect on January 1, 2009. A change in the method of counting claims was addressed. A standard practice that has evolved of making multiple payments to settle a single claim requires that a report be provided to the Board that aggregates claim payments on a per claim basis. DEP will also continue to report on a claim payment basis to assure that the payment amounts in MSI's systems are in balance with the fiscal year accounting provided by the Comptroller's Office. The Board made recommendations for some modifications to the documents prepared by DEP that will be implemented prior to the December 2009 Board meeting.

3. Review of Investments

Mr. Siegel described the investments of the Fund and noted that the average monthly rate of return for FY 2007-08 was just over three tenths of one percent. That was down significantly from the average monthly rate of return for FY 2006-07 of 8.53% and well below what was anticipated for FY 2007-08. The reduced rate of return was caused by the severe downturn in the economy, and, in particular, reflected losses to equities, which now constitute about 18% of the Fund's investments. He noted that returns on Treasury Bills and on other investments, such as cash and cash equivalents, which are primarily overnight loans between financial institutions, are now producing very little if any returns. This phenomenon reflects the stagnation in lending. Low and negative rates of return will likely continue through the balance of FY 2008-09 and into FY 2009-10. However, Mr. Siegel noted that equity markets are "forward looking," which is to say that investors will anticipate the recovery in the economy before it occurs. As a result, the stock markets will likely recover before the overall economy recovers, which should result in an improvement to the average monthly rate of return. Historically all investments were held by Treasury in one fund, the 98 Fund. Treasury has established a new fund, the 99 Fund, which will contain long term investments, such as equities. The operations of the various state government programs are paid first from the liquid investments, such as cash and cash equivalents, which are contained in the 98 Fund. That practice will minimize the need to liquidate equities when their values are temporary depressed.

4. Review of Inflation Factor

The index historically used to calculate the inflation index, the National Residential Building Costs, has been eliminated from the construction material cost indexes provided by Marshall Swift/Boeckh. It has been replaced with the Buildings-Eastern District, which Marshall Swift states is more reflective of inflation for the region, which includes Pennsylvania. Unless more recent data is available, the MSI billing systems will be updated with a new inflation factor of 1.9% on January 1, 2009, which is based on the Buildings-Eastern District index.

5. Review of Premium Rates, Coverage Limits and Commission Rates

The Board unanimously agreed to keep premium rates, coverage limits and commission rates at their current levels, and acknowledged the Board's previous decision to reduce rates by about 25% overall on January 1, 2009. The Board will monitor the effects of the rate reductions before any further changes are implemented.

6. MSI Marketing

The marketing activities were evaluated. The existing marketing plan is similar to those of the past few years, which primarily use cable television commercials. However, DEP has initiated use of the statewide marketing consulting contract with the Neiman Group and expects to have a revised marketing approach and campaign that will take the place of the plan previously presented to the Board. Preliminary recommendations of the Neiman Group will result in changes to the marketing campaign for FY 2008-09 that will reduce the level of mass marketing (television and radio) and increase the use of direct marketing (mailings and door to door marketing). The revised campaign will also include the limited use of billboards.

7. <u>Rate Reduction Procedures</u>

   The processes that will implement the reduction in premium rates have been initiated, and payment notices for policies that renew on or after January 1, 2009 reflect the new, lower premium rates.

8. <u>Authorization to Expend</u>

   The Board unanimously approved a reimbursement of up to $3,384,563 from the Fund to reimburse DEP for the cost it incurs administering the program. This amount was down by $406,515 from the previous year's authorization of $3,791,078. The reduction was attributable to the completion of the computer development work associated with eCommerce.

9. <u>Update on Program Improvements</u>

   DEP staff noted that the eCommerce development was successfully completed, and that the online policy application and renewal systems with credit/debit card payments are working very well. In addition, the expansion of coverage to include appurtenances has been successfully implemented.

10. <u>Other Business, Next Meeting and Adjournment</u>

    There was no further business conducted by the Board other than to establish that meetings would be held in 2009 on March 25, June 25, and December 10. The meeting was adjourned at 11:30 a.m.

SUMMARY OF ACTIONS TAKEN BY THE BOARD:

1. Approved the minutes of the September 4, 2008 MSI Board Meeting.
2. Determined to keep premium rates, coverage limits and commission rates at levels previously established by the Board. That includes an approximate 25% reduction in premium rates that takes effect on January 1, 2009.
3. Authorized a reimbursement of up to $3,384,563 from the Fund to compensate DEP for the administrative costs of the program.

KEY OBLIGATIONS:

1. DEP to modify financial and operational graphs.